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SUBJECT: PRT TIKRIT: SALAH AD DIN BUSINESS LEADERS STEP FORWARD

REF: 06 BAGHDAD 4728

¶1. This is a PRT Tikrit, Salah ad Din cable.

¶2. Sensitive but unclassified, entire text.

¶3. SUMMARY. Leaders from Salah ad Din's emerging private sector met on March 15 for an inaugural provincial business and investment conference. The talks, held in Tikrit, brought together 36 delegates representing a wide spectrum of industries. In addition to discussing possible solutions for the chief obstacles to economic growth - the abysmal security situation, the lack of adequate banking/financial services, and distrust of local government - as well as potential solutions, attendees also broke ground at the conference. They expressed frustration with a provincial governance process perceived to lack transparency and unresponsive to the business community, representatives took the first tentative steps toward political mobilization. The conference, sponsored by the PRT but primarily organized by local leadership, provided a forum for enhanced dialogue between important players in the business community. Even more importantly, it may serve as a springboard to greater public inclusion in the political process in Salah ad Din by providing a platform for citizens to demand accountability on the part of the provincial government. END SUMMARY.

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Swimming Upstream  
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¶4. The private sector in Salah ad Din is struggling to establish itself in a province devastated economically by lingering insurgent war, a de-Baathification program which forced a high percentage of SaD professionals out of their jobs, and extreme refined fuel shortages. In addition to these problems, the private sector here is nascent. During the previous regime, the government and military were the leading employers in Salah ad Din; when those jobs disappeared in 2003, so did much of the economic life blood of the province. Facing a still uncertain future, an assembly of leaders representing a wide spectrum of the provincial economic scene ) from construction contractors to university economics professors - met on March 15 in Tikrit to discuss challenges and opportunities for the business community. Several themes materialized from a free-wheeling discussion lasting over five hours. Potential investors/entrepreneurs are hamstrung by a range of challenges ) the appalling security situation, a lack of banking/financial services, a shortage of trained personnel, etc. In dialogue which knew few limitations, delegates blamed the poor state of affairs in SaD on everything from undue influence by Iranian & insects8 at the Bayji oil refinery to the lack of a five-star hotel in Tikrit. However, moderate heads prevailed, and conference attendees remained largely focused on practical issues.

¶5. Reflecting a widespread frustration with perceived

corruption and lack of accountability to the public within the provincial government, conference attendees demanded increased visibility in the provincial governance process on the part of the business community. For the first time seen here, representatives began to discuss the organization of a lobbying group capable of projecting influence during the provincial budgeting process. Significantly, attendees also called for increased use of the media in order to communicate directly with the public and to promote policies beneficial to the private sector.

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Lack of Security Still Paramount  
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¶6. The present security situation negatively affects almost every walk of life in SaD, creating a climate extremely non-conducive to domestic and international investment alike. In some ways the analysis for those considering investment is clear: the potential benefits of investing in many areas of Salah ad Din do not yet outweigh the potential costs. However, beyond this calculation may lay a more fundamental impediment to the opening of new shops, market stalls, and other bedrocks of economic growth. Nearly every attendee emphasized the ubiquitous fear which permeates the lives of most SaD residents, fostering a risk-averse climate and deterring many from investment. According to most of the participants, until a majority of citizens feel a significant improvement in their personal security, economic life in SaD is unlikely to blossom. Nearly all conference attendees emphasized the critical importance of the local ISF to increase its capabilities to provide security, especially in the larger cities.

BAGHDAD 00000996 002 OF 003

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The Mattress is Still Handy  
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¶7. There are presently four government-run banks in Salah ad Din: the Al Rashid, the Al Rafadan, the Agriculture, and the Real Estate banks. According to atmospheric reports and interviews in Tikrit and Bayji, government banks are viewed by many to be plagued by mismanagement and corruption, and to also lack vital services. (NOTE: For example, during interviews conducted in a Samarra marketplace on February 14, entrepreneurs and shop owners overwhelmingly voiced distrust with local financial institutions, claiming that their money would be stolen either by bank employees or armed &banditss8. END NOTE.) (COMMENT: This failure of government banks to provide necessary financial services appears to be a significant impediment to economic growth: several shop owners told IPAQ that they would consider expanding the scope of their business if they had access to a loan. END COMMENT.) Echoing concerns heard on the street, conference attendees highlighted the limitations of government banks: low accessibility for loans for most residents (extremely high collateralization required), lack of electronic transfer capabilities, and weak (if any) financial protection (septel). Khatan Rahim Wahib, chairman of the Department of Economics at the University of Tikrit, spoke for most representatives when he described the government banks as &a dead body, affecting the economy in a bad way.8

¶8. The embryonic private banking industry experienced limited success thus far in filling the growing demand for financial services. The first privately owned bank in SaD, Al Mosul, opened in September 2006. One of three branches recently opened (the others are in Sulaymaniyah and Mosul, with another soon to open in Kirkuk), Al Mosul has experienced respectable if inconsistent growth. Hussein Mahmoud Alkhalidi, the Tikrit branch general manager, emphasized that while the bank grew significantly in 2006 (from 2 billion ID in February 2006 to 25 billion ID by March 2007), it still suffers from a

number of technical challenges. He blamed the Ministry of Communications (MoC) for failing to establish the necessary communications infrastructure to support critical business services such as electronic fund transfers. The bank also may lack basic expertise in areas fundamental to business success, for example, marketing; Alkhalidi's primary means of advertising ( hand-out flyers ) may be a difficult proposition, especially considering the dire security situation. (COMMENT: Another private bank, the Al Asher, is expected to be opened within several months, but it is likely that this institution will suffer some of the same problems initially as Al Mosul. END COMMENT.)

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Contractors Frustrated with Contracting Process,  
Corruption  
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¶9. Totaling 117 million USD in 2007, the provincial budget ) mainly manifested by capital projects - provides the chief economic stimulus in SaD. However, conference attendees voiced frustration with a provincial contracting process perceived by many to be unfair and lacking accountability, stating that there did not appear to be a transparent system stipulating the awarding and payments of contracts. Suspecting fraud, Mansoor Hamed Saleh, a Tikrit businessman representing the construction trade, told IPAO that he was unaware of how the provincial council made its contracting decisions. According to Saleh, contracts were often doled out to more expensive companies which were unable to perform the tasks for which they were hired. (COMMENT: The propensity of contractors believing that it is a mistake to hire their competitor is not unique to Iraq. However, the veracity of this sentiment may be supported by the previous ad hoc provincial government contracting process (before the new Ministry of Finance regulations), which was often carried out with little accountability or oversight, ref tel. END COMMENT.)

¶10. Reflecting a common sentiment, conference attendees almost unanimously expressed disgust with a provincial government perceived to be rife with corruption. Expressing disdain for the various committees appointed by the Provincial Council in part to fight corruption, Abdul Shihab Ahmed, a professor at the University of Tikrit, asked &how can corrupt committees eliminate corruption?8 It was a question left unanswered.

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Let,s Get Together  
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BAGHDAD 00000996 003 OF 003

¶11. For the first time, delegates began to discuss organizing into a group capable of exerting influence. The potential purpose of this group took several forms during the discussion. While some attendees saw its role as attracting foreign investors, others envisioned a committee representing private industry which would be engaged with local decision-makers in the formation of the 2007 provincial budget. Several attendees urged the creation of a committee charged with attracting international investors to the province, urging greater use of the media ) namely SaD TV ) as a means of leveraging public opinion.

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Comment  
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¶12. There is no panacea for immediately improving the business climate in SaD. Many of the challenges in attracting foreign investment, such as the poor security situation, will likely take years to overcome. Due to its previous status as a government/military hub, there is probably not a sufficient amount of human capital )

salesmen, artisans, machinists, etc. - which form the heart of a private sector workforce and could support an immediate surge of business development. Overcoming other thorny issues, such as the lack of modern financial services, will require a significant commitment from GOI - especially from the MoC - to upgrade and maintain essential communications infrastructure.

¶13. However, the willingness of members of the private sector to meet and to come to a consensus regarding the difficult challenges facing them was an important step forward. The greatest immediate impact will not likely be economic, but political (which may later lead to economic improvements). The movement stirring within the business community to mobilize and exert greater influence upon a provincial government largely unaccountable to its constituents in the past is potentially a significant step forward. The proposals from numerous attendees to form a lobby group and exploit the mass media (SaD TV) in order to communicate their platform to the public suggests a new savvy emerging within the private sector, an awareness of the hard realities of functioning within a ) albeit embryonic ) democratic process. This development may bode very well for the encouragement of more transparent and inclusive governance in SaD.

¶14. The lack of clarity for many in the business community regarding the provincial contracting process underscores the importance of the recently released Ministry of Finance regulations, which mandate an open and transparent process. Failure on the part of provincial governments to implement this promising system could represent a significant setback regarding the establishment of greater credibility for provincial governments in the eyes of their citizens.

¶15. PRT Salah ad Din will continue to strongly encourage participation of the private sector in the provincial government budget execution process in 2007. END COMMENT.

¶16. For additional reporting from PRT Tikrit, Salah ad Din, please see our SIPRNET reporting blog:  
<http://www.intelink.sgov.gov/wiki/Tikrit>.

KHALILZAD